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26th ANNUAL McGRAW-HILL SURVEY OF OVERSEAS OPERATIONS OF U.S. INDUSTRIAL COMPANIES, 1984-86

Paced by chemicals, transportation and metals, U.S.-based industrial companies plan to hike capital spending abroad this year by 16.5% to $36.5 billion (Table I). This according to McGraw-Hill's "26th Annual Survey of Overseas Operations of U.S. Industrial Companies." The 16.5% surge represents a dramatic turnaround from last year's 14.2% cut, but if realized will be the second largest rise in purchases of property, plant and equipment abroad since a 30% jump in 1980. All data in this report refer to majority-owned foreign affiliates of U.S. industrial companies.

Apparently viewing 1985 with some optimism, U.S. firms plan to increase their overseas capital spending by 16.6% next year. Not only is the world economy expected to continue on the road to recovery, but American companies' balance sheets this year are being boosted by the robust expansion in the U.S., thus providing a supply of investable funds for next year. In 1986, foreign affiliates' plans call for a more modest 3.8% capital spending rise.

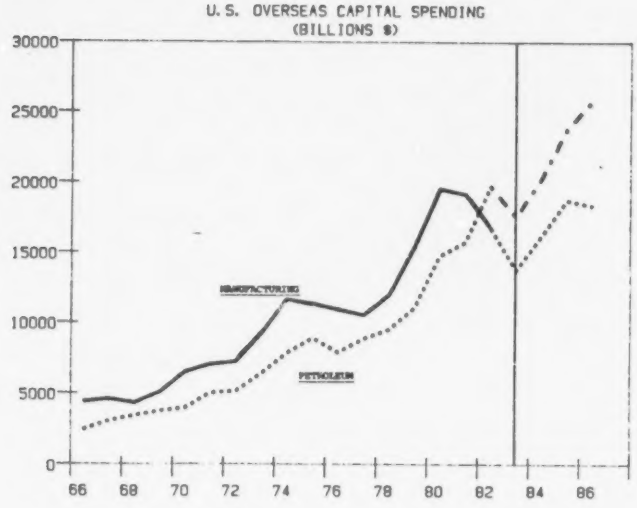
If these plans are realized, it would result in a return to the unbroken string of foreign spending gains from 1977 to 1982. Also, the survey's projections of robust foreign capital spending compare quite favorably with U.S. firms' domestic expenditure plans: U.S. manufac-

turing companies responding to a separate McGraw-Hill survey said they would hike 1984 outlays at home a hefty 15.2%. It thus appears that U.S. executives are convinced that a sustainable recovery is under way overseas. Given the pickup in industrial production, an accelerating pace of recovery and expectations of growing profits abroad, such a view is not surprising.

While industry as a whole anticipates a healthy spending boost in 1984 and 1985, the real story is in manufacturing. If all plans are realized, 1984 would be the first year in the last four that manufacturing has increased its overseas expenditures. Accounting for 44% of U.S. industries' foreign investment, manufacturing companies project spending $16.2 billion this year, up nearly 18% from last year's $13.8 billion. In 1985, they foresee boosting their overseas spending another 16% to $18.7 billion.

By contrast, if petroleum companies' spending plans for 1984 are realized, it would resume a streak of expenditure hikes going back to 1976 and interrupted only once, last year, when spending fell by 11% to $17.5 billion. This year the oil companies foresee increasing overseas expenditures by nearly 16% to $20.3 billion; and in 1985, they project a hike of more than 17% to $23.8 billion. The figure on the next page illustrates overseas manufacturing and petroleum spending.

These foreign spending projections are based on a survey conducted in July and August among 62 U.S. manufacturing and petroleum companies that account for 29% of U.S. foreign capital spending in majority-owned foreign affiliates (Table VIII). Dollar figures cited in this report represent foreign capital spending by all U.S. industrial firms, not just those companies included in the survey.



Brighter Overseas Skies on the Horizon

One reason the spending picture looks brighter in 1984 is that the recession plaguing foreign markets in 1983 gave way to recovery this year. Thus, despite a super-strong dollar, American manufacturing companies expect their export sales to grow by 9% in 1984 to $156.3 billion and by another 11% in 1985 to $173.8 billion (Table IV). By contrast, export sales of manufacturing companies fell by 6.3% in 1983 and dropped by 8.1% in 1982. Especially optimistic are exporters of primary and fabricated metals and electrical machinery. Moreover, U.S. manufacturing firms expect sales of their majority-owned foreign affiliates to rise by 5% this year and 15% the next (Table VII).

There is another factor which might explain the upbeat foreign spending outlook for 1984. A lot of overseas managers probably assume the dollar is bound to weaken in the relatively near future even though it is currently stronger than it has been in many years. Thus, it may seem a good idea to capitalize now on the buying power of the dollar in overseas markets by buying plant and equipment. Then later,

income and assets from overseas operations denominated in local currency could appreciate in value and offer the company a handsome return on its investment.

As another illustration of growing confidence in overseas recovery, 65% of survey respondents anticipate profit margins on foreign sales to be higher in 1984 than in 1983 (Table VI) and 68% expect profit margins on sales to be even higher in 1985. Particularly optimistic for 1985 are machinery and transportation equipment producers where 80% of the companies in both groups projected higher profit margins in 1985 than 1984. Also anticipating higher profit margins this year and next are the majority of electrical machinery, chemicals and food manufacturers surveyed.

Manufacturers Build For the Future

As is customary, the majority (56%)of all foreign affiliate capital spending is being done by petroleum companies. Despite the glut in world oil supply, oil companies plan to spend nearly 16%, or $2.74 billion, more in 1984 than the $17.5 billion they spent in 1983. In 1985, oil companies expect to increase overseas spending by 17.3% to $23.8 billion. This despite the fact that most petroleum companies expect overseas profit margins to be the same or worse in 1984 and 1985. Which suggests that planned 1984 and 1985 investment is geared to the longer run.

On the other hand, anticipation of growing overseas profit margins by manufacturers appears to be a main driving force behind hefty boosts in capital spending. For example, the great majority of chemical producers are looking forward to fatter overseas margins; they plan to invest 34% more than last year for a total of $3.3 billion.

Transportation equipment manufacturers project hiking overseas spending by 33% this year to $3.6 billion and by 37% next year to $4.9 billion. Most of this substantial increase will be concentrated in Western Europe, where a portion will be allocated to joint ventures with overseas small car makers. Other big spenders will be primary and fabricated metals producers, who foresee boosting overseas spending in 1984 by 18% to $1 billion and by 33% in 1985 to $1.3 billion.

Petroleum Spending Heads North

One notable trend suggested by the survey is the shift of petroleum investment out of most of the developing countries, and into Europe, and to a lesser degree, the Far East. At this time there is a real push to engage in the sort of oil exploration that led a few years ago to the spectacular finds in Britain's North Sea and in offshore Norway. Much of this is concentrated offshore, both in Spain and the Peoples Republic of China.

The numbers also reflect, in part, spending for the expansion of refinery operations in the countries of the European Economic Community (EEC). For example, U.S. overseas affiliates plan big boosts in petroleum spending in non-EEC Europe this year and in EEC countries and parts of the Far East in 1985 and 1986 (Table II).

Combined with a big increase in 1984 oil spending in Australia, New Zealand and South Africa, U.S. overseas petroleum investment in developed countries should rise to 63% of the total from 60% a couple of years ago. On the other hand, the share of manufacturing investment done by U.S. overseas affiliates in developed countries should remain at 80% where it has been for the last several years.

However, most of the gains in manufacturing investment by

majority-owned foreign affiliates in 1984 will occur in Europe and Oceania. For example, transportation equipment, electrical machinery and chemicals are all planning sizable investment boosts in 1984 in EEC and non-EEC Europe and in Australia, New Zealand and South Africa. The spending gains foreseen by these industries in those regions would occur against a background of many years of successful investment there.

By contrast, most manufacturing industries are planning cuts in Latin America for 1984 due to the debt crisis-induced squeeze on imports and hard currency reserves. Also, spending cuts will be made by most manufacturers in Canada and the Far East. But one area where substantial U.S. investment growth could take place is transportation equipment manufacture in Japan and South Korea. Major U.S. auto makers, seeking lower labor costs, are currently engaged in joint venture assembly operations in Japan and they are negotiating to establish similar operations in South Korea.

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TABLE I

OVERSEAS CAPITAL EXPENDITURES BY AMERICAN COMPANIES
(MILLIONS OF DOLLARS)

INDUSTRY	1983 ACTUAL*	1984 PLANNED	1983-84 % CHANGE	1985 PLANNED	1984-85 % CHANGE	1986 PLANNED	1985-86 % CHANGE
Primary & Fabricated Metals	825	976	18.3	1,300	33.3	1,265	-2.7
Machinery	3,380	3,316	-1.9	3,062	-7.6	2,850	-6.9
Electrical Machinery	1,148	1,248	8.7	1,469	17.7	1,521	3.5
Transportation Equipment	2,702	3,598	33.1	4,922	36.8	4,912	-0.2
Chemicals	2,457	3,295	34.1	3,286	-0.3	3,202	-2.6
Food & Beverages	1,318	1,451	10.1	1,837	26.6	1,514	-17.6
Other Manufacturing**	1,926	2,308	19.8	2,858	23.8	3,076	7.6
ALL MANUFACTURING	13,757	16,191	17.7	18,735	15.7	18,339	-2.1
Petroleum	17,542	20,280	15.6	23,785	17.3	25,814	8.5
ALL INDUSTRY	31,299	36,471	16.5	42,520	16.6	44,153	3.8

NOTE: Figures refer to foreign affiliates of U.S. companies in which a majority share is owned by U.S. companies. Data for 1984, 1985, 1986 are based on a sample, but represent spending by all U.S. majority-owned foreign affiliates.

*SOURCE: U.S. Dept. of Commerce

**Includes paper, textiles, instruments, rubber, and stone, clay, glass.

TABLE II

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

	CANADA				LATIN AMERICA			
		Planned				Planned		
INDUSTRY	Estimated 1983	1984	1985	1986	Estimated 1983	1984	1985	1986
Primary & Fabricated Metals	215	62	76	111	346	334	374	376
Machinery	422	341	397	355	216	330	301	181
Electrical Machinery	137	33	45	44	116	10	0	0
Transportation Equipment	615	513	693	698	447	405	552	553
Chemicals	425	325	389	333	345	363	489	470
Food & Beverages	249	305	366	294	214	219	199	236
Other Manufacturing	405	600	921	685	298	235	324	355
ALL MANUFACTURING	2,468	2,178	2,887	2,520	1,983	1,895	2,239	2,170
Petroleum	3,315	2,500	962	1,776	852	1,805	663	922
ALL INDUSTRY	5,783	4,678	3,848	4,296	2,835	3,700	2,902	3,092

NOTE: The sum of the regions is not equal to the all industry total for overall capital expenditures. This is due to international capital spending by some firms which remains unallocated regionally, e.g. the purchase of oil tankers and oil drilling equipment deployed in many regions of the world during their useful life.

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

INDUSTRY	EEC*				EUROPE OTHER THAN EEC			
	Estimated 1983	Planned 1984	Planned 1985	Planned 1986	Estimated 1983	Planned 1984	Planned 1985	Planned 1986
Primary & Fabricated Metals	209	400	477	515	16	23	23	25
Machinery	2,282	1,911	1,608	1,701	92	7	6	12
Electrical Machinery	408	999	1,165	1,211	75	138	180	187
Transportation Equipment	1,245	2,165	2,969	2,949	223	341	472	472
Chemicals	1,291	1,363	1,723	1,557	94	126	183	153
Food & Beverages	601	812	997	827	41	0	0	0
Other Manufacturing	984	1,143	1,235	1,586	53	102	107	128
ALL MANUFACTURING	7,020	8,792	10,173	10,346	594	737	970	976
Petroleum	4,968	4,762	9,423	13,288	1,436	3,086	357	222
ALL INDUSTRY	11,988	13,554	19,596	23,634	2,030	3,823	1,327	1,198

*Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, United Kingdom

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

INDUSTRY	MIDDLE EAST*				AUSTRALIA, NEW ZEALAND, SOUTH AFRICA			
	Estimated	Planned			Estimated	Planned		
	1983	1984	1985	1986	1983	1984	1985	1986
Primary & Fabricated Metals	0	0	0	0	21	121	286	211
Machinery	10	105	104	49	NA	280	293	361
Electrical Machinery	7	5	3	3	29	35	40	42
Transportation Equipment	0	9	22	23	144	151	195	198
Chemicals	7	7	0	8	113	134	132	112
Food & Beverages	5	0	0	0	136	70	84	93
Other Manufacturing	0	2	0	0	NA	64	66	77
ALL MANUFACTURING	29	128	130	83	576	857	1,096	1,094
Petroleum	601	498	811	1,093	583	1,285	51	252
ALL INDUSTRY	630	625	941	1,176	1,159	2,142	1,147	1,347

*Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, PDR Yemen, Yemen Arab Republic

TABLE II (Cont'd)

OVERSEAS CAPITAL EXPENDITURES BY REGIONS
(MILLIONS OF DOLLARS)

INDUSTRY	JAPAN-ASIA (OTHER THAN MIDDLE EAST)				AFRICA (OTHER THAN MIDDLE EAST AND SOUTH AFRICA)			
	Estimated	Planned			Estimated	Planned		
	1983	1984	1985	1986	1983	1984	1985	1986
Primary & Fabricated Metals	13	36	65	29	5	0	0	0
Machinery	NA	306	313	168	0	35	40	22
Electrical Machinery	370	14	16	17	6	14	20	17
Transportation Equipment	25	14	20	20	4	0	0	0
Chemicals	174	303	341	286	8	11	28	12
Food & Beverages	57	25	179	51	15	21	13	12
Other Manufacturing	NA	143	176	212	4	19	30	32
ALL MANUFACTURING	1,044	841	1,110	782	43	100	130	95
Petroleum	3,224	3,561	11,518	8,177	2,064	1,387	0	84
ALL INDUSTRY	4,268	4,402	12,628	8,959	2,107	1,487	130	180

TABLE III

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT
(PERCENT OF TOTAL)

INDUSTRY	Estimated 1983			Planned 1984		
	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	6	7	87	7	12	81
Machinery	2	27	71	3	23	74
Electrical Machinery	1	7	92	1	9	90
Transportation Equipment	0	3	97	3	4	93
Chemicals	31	12	57	32	12	56
Food & Beverages	1	8	91	6	0	94
Other Manufacturing	4	24	72	4	21	75
ALL MANUFACTURING	7	15	78	9	13	78
Petroleum	0	3	97	0	3	97
ALL INDUSTRY	3	8	89	4	7	89

TABLE III (Cont'd)

OVERSEAS CAPITAL EXPENDITURES FOR PROPERTY, BUILDINGS, AND MACHINERY & EQUIPMENT
(PERCENT OF TOTAL)

INDUSTRY	Planned 1985			Planned 1986		
	Property	Buildings	Machinery & Equipment	Property	Buildings	Machinery & Equipment
Primary & Fabricated Metals	7	3	90	7	3	90
Machinery	1	19	80	1	20	79
Electrical Machinery	1	8	91	1	8	91
Transportation Equipment	3	21	76	0	8	92
Chemicals	38	9	53	44	7	49
Food & Beverages	3	13	84	0	0	100
Other Manufacturing	4	19	77	5	24	71
ALL MANUFACTURING	9	15	76	9	12	79
Petroleum	0	4	96	1	4	95
ALL INDUSTRY	4	9	87	4	8	88

TABLE IV

EXPORT SALES EXPECTATIONS OF AMERICAN MANUFACTURERS
(MILLIONS OF DOLLARS)

INDUSTRY	Actual* 1983	Expected 1984	% Change 1983-84	Expected 1985	% Change 1984-85
Primary & Fabricated Metals	$ 5,653	$ 6,256	11	$ 6,619	6
Machinery	38,569	39,097	1	41,034	5
Electrical Machinery	15,740	18,353	17	19,853	8
Transportation Equipment	28,269	30,843	9	36,687	19
Chemicals	19,751	19,498	-1	20,519	5
Other Manufacturing	35,393	42,263	19	49,073	16
ALL MANUFACTURING	143,375	156,309	9	173,785	11

*SOURCE: U.S. Dept. of Commerce

TABLE V

EXPECTED PROFIT MARGINS ON SALES,
OVERSEAS SUBSIDIARIES vs. U.S.

INDUSTRY	1984 % of Companies Answering			1985 % of Companies Answering		
	Higher	Lower	Same	Higher	Lower	Same
Primary & Fabricated Metals	50%	50%	0%	43%	43%	14%
Machinery	60	40	0	60	40	0
Electrical Machinery	67	33	0	67	33	0
Transportation Equipment	20	80	0	20	60	20
Chemicals	20	70	10	13	75	12
Food & Beverages	0	100	0	0	100	0
Other Manufacturing	27	64	9	30	50	20
ALL MANUFACTURING	33	63	4	32	56	12
Petroleum	57	14	29	43	14	43
ALL INDUSTRY	36	56	8	33	50	17

TABLE VI

EXPECTED OVERSEAS PROFIT MARGINS ON SALES,
1984 vs. 1983, 1985 vs. 1984

INDUSTRY	1984 vs. 1983 % of Companies Answering Higher	Lower	Same	1985 vs. 1984 % of Companies Answering Higher	Lower	Same
Primary & Fabricated Metals	40%	40%	20%	60%	20%	20%
Machinery	80	20	0	80	20	0
Electrical Machinery	67	33	0	67	0	33
Transportation Equipment	80	0	20	80	0	20
Chemicals	73	0	27	67	0	33
Food & Beverages	67	0	33	67	0	33
Other Manufacturing	55	36	9	60	10	30
ALL MANUFACTURING	65	19	16	68	7	25
Petroleum	14	43	43	29	14	57
ALL INDUSTRY	58	22	20	62	8	30

TABLE VII

EXPECTED SALES OF FOREIGN AFFILIATES

INDUSTRY	-------Expected % Change------ 1983-84	1984-85
Primary & Fabricated Metals	15%	16%
Machinery	5	10
Electrical Machinery	5	15
Transportation Equipment	-8	23
Chemicals	7	9
Food & Beverages	5	9
Other Manufacturing	15	21
ALL MANUFACTURING	5	15
Petroleum	-2	4
ALL INDUSTRY	1	9

TABLE VIII

SURVEY SAMPLE SIZE

INDUSTRY	Percentage of Capital Spending Covered by Survey
Primary & Fabricated Metals	10.2
Machinery	11.9
Electrical Machinery	27.2
Transportation Equipment	34.3
Chemicals	30.5
Food & Beverages	5.9
Other Manufacturing	31.4
ALL MANUFACTURING	23.0
Petroleum	34.2
ALL INDUSTRY	29.3